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Global Energy Regulation

Reporting on energy regulation around the world February 2000

EUROPEAN NEWS

IN THIS ISSUE

United Kingdom: OFGEM Rules on Changes to Gas Trading Arrangements Gas regulator OFGEM has directed pipeline operator Transco to accept a number of modifications to the gas Network Code. These modifications will establish a within-day mechanism for buying and selling entry capacity for the transportation system from June 2000, and will increase total firm entry capacity by 10%. Modifications to the treatment of shipper balancing tolerances are also being implemented. However, OFGEM has rejected calls for holders of firm entry capacity rights at given locations to be able to transfer these rights to other locations on an interruptible basis.
OFGEM Press Release, 28/2/00

United Kingdom: Regulator Consults on Utilities Bill and NETA Licence Changes Energy regulator OFGEM has initiated a second consultation on new energy licences to accommodate the proposals set out in the Utilities Bill currently before Parliament. This follows initial consultation in November. Among the major changes proposed are the separation of activities in electricity supply (retail) and distribution (network) services, harmonisation of electricity supply licences for first-tier licensees (Regional Electricity Companies) and second-tier licensees (Competitors), and the introduction of standard conditions in all licences. OFGEM and the Department of trade and Industry are also consulting on the licence changes required to implement the New Electricity Trading Arrangements (NETA).
OFGEM Press Releases and Publications, 28/2/00, 7/2/00

United Kingdom: New Incentives for Transmission Services and Reactive Power Energy regulator OFGEM has set new targets for the Transmission Services and Reactive Power components of the uplift costs associated with operating the electricity transmission system. Under a cap-and-collar incentive scheme, transmission system operator NGC will retain 50% of any cost savings or cost overrun, relative to the Transmission Services target of £201 million (US$321.6 million), up to a maximum of £21million (US$33.6 million). It will also

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share in any deviation from the Reactive Power target of £46.5 million (US$74.4 million) on a 50:50 basis, up to a maximum exposure of £2.5 million (US$ 4 million). These incentive schemes will be terminated when the New Electricity Trading Arrangements (NETA) come into effect.
OFGEM Press Release, 25/2/00

United Kingdom: OFGEM Moves to Impose Energy Efficiency Standards on "Second-Tier" Electricity Suppliers Energy regulator OFGEM has initiated formal licence modification procedures to allow energy efficiency standards to be set for "second-tier" (competitive) suppliers of electricity to designated (small) customers. This condition is already included in the licences of gas suppliers and of the incumbent Public Electricity Suppliers (ie the Regional Electricity Companies acting within their own regions).
OFGEM Publication, 25/2/00

United Kingdom: OFGEM Consults on Price Comparison Code Energy regulator OFGEM has initiated a consultation on methods to facilitate comparison of competing offers of gas and electricity supply. Under this consultation, industry participants have been asked to develop a price indexation code by September 2000. In the meantime, OFGEM has issued an initial proposal that licensed suppliers (retailers) should be required to publish energy cost indices for their tariffs, based on the cost of standardised annual consumption.
OFGEM Press Release, 11/2/00

United Kingdom: Final Gas Supply Price Control Proposals Published Energy regulator OFGEM has published its final proposals for a further one-year control on British Gas Trading's Standard, PromptPay and PrePayment tariffs. The cap on Direct Debit tariffs will be lifted. The new cap, which would come into effect on 1 April 2000, would reduce BGT's revenues from controlled customers by around 4.5%, reducing bills for average consumption by between £8 and £10 per year (US$12.8 and US$16). This represents a slightly smaller reduction than the 5% figure suggested in OFGEM's Initial Proposals – reflecting revised information on a number of BGT's cost parameters. OFGEM claims that the new caps will allow "headroom" for competitors (ie a margin to be undercut) of between 7% and 15% for Standard and PromptPay customers, and slightly less for Prepayment customers.
OFGEM Press Release, 10/2/00

United Kingdom: Generators Reject Regulator's "Good Behaviour" Proposal Five of the seven generators affected have rejected OFGEM's proposal for a new "good behaviour" licence condition, which would outlaw abuse of "substantial market power".

The refusal by National Power, PowerGen, British Energy, AES and Mission to accept the condition voluntarily means that the regulator may now refer the issue to the Competition Commission.
Financial Times, 8/2/00

Denmark: New Company for Power Sales And Marketing
The three Scandinavian companies, Danel, Elsam and Norwegian Hafslund, are planning to set up a new power sales and marketing group, Energiselskapet, in Denmark. They are currently recruiting distributors to join the new company. The aim is to create a strong player in the Danish market focussing on Northern Europe.
Power in Europe, 4/2/00

France Adopts European Electricity Directive On 1st February 2000, the French Parliament finally adopted a Law introducing competition to the French electricity sector, almost a year after it was required to do so under the terms of the EU Electricity Directive. Under the terms of the Law, 800 large industrial clients, representing about 30% of total demand, will be free to choose a supplier other than EDF, a figure which will rise to 3000 clients (representing 34% of total demand) in 2003.

MPs from the right wing Démocratie Libérale party objected to the text that was finally adopted, claiming that its practical effect would be to protect EDF's monopoly. They had hoped to call upon the Constitutional Council to rule on the matter, but were unable to secure the 60 votes required for such intervention. Christian Pierret, the French Secretary of State for Industry, acknowledged that the Law provided for no more than the minimum level of competition required under the European Directive. He suggested, however, that in practice the process of liberalisation might proceed more rapidly than provided for in the Law.
Les Echos, 9/2/00, 2/2/00

Germany: VDEW Argues that Competition Works in the German Electricity Market Eberhard Meller, head of VDEW, the Association of German Utilities, argues that Germany is leading the way in the liberalisation of the European electricity market. Meller pointed out that Germany achieved full liberalisation of the domestic energy market within a few months whereas most other European countries are lagging behind in opening up their markets. Meller regards recent criticism from European Commission of the Association Agreement as unjustifiable. The Agreement splits Germany into a North and a South zone and charges a transit fee between the two zones and with other countries. He stressed that unlike other European countries, Germany's geographical position makes it a major transit country and it is unacceptable that German customers subsidise the transit of electricity of foreign producers. He further pointed out that

if the European Union finds a common regulatory framework for transmission of electricity within Europe, Germany will be willing to abolish the T-component. Meller further stressed that Germany does not need an electricity regulator.
Frankfurter Allgemeine Zeitung, 28/2/00

Germany: EC Launches Investigation into Proposed German Merger The European Commission has started to investigate the proposed merger between VEBA AG and VIAG AG, two diversified German energy groups. The decision by the Commission comes despite requests from the German antitrust authorities for the right to conduct their own inquiry. The Commission expressed some concerns that a merger could potentially discriminate against foreign competitors and new industry participants by charging them a fee each time electricity is transferred between the North and the South of Germany, and in and out of the country. Veba controls much of the energy sector in northern Germany while Viag is very strong in the south.
Wall St Journal (Europe), 7/2/00

Ireland's Electricity Market Opens for Competition On 19th February 2000, Ireland's Electricity Market was opened to competition. Energia, Viridian's independent energy supply company, has become the first electricity supplier to send electricity across the interconnector onto the southern system. Two additional supply licences have been granted to eirtricity Limited and e Power Limited. In preparation for the opening of the electricity market, the Commission for Electricity Regulation has (1) published a final paper on the interim principles for allocating capacity and conducting trade across the interconnector, (2) approved a Trading and Settlement Code, (3) published ESB's Transmission and Distribution Use of the System Charges and (4) published the methodology for the calculation of top-up prices.
Viridian Press Release, 18/2/00; http://www.cer.ie

Ireland: Future Ownership of the ESB's Transmission Assets
Kieran O'Brien, head of the ESB National Grid, has sent a report to the ESB explaining his view that the ownership of the transmission assets should move to the new Transmission System Operator (TSO). Independent Power Producers (IPPs) agree with ESB National Grid. IPPs argue that if the ESB retains the ownership of the transmission assets, it would be able to manipulate Ireland's power system.
The Sunday Tribune, 6/2/00

Ireland: Belfast-Dublin Gas Pipeline Premier Transco Limited (PTL), a joint venture company between BG International and KeySpan, has announced its commitment to build a natural gas pipeline from Belfast to Dublin to serve industrial and commercial users. To attract users, PTL is offering to charge those large consumers that sign up to PTL in the next 90 days a transportation price equal to 3.8

p/therm (6.08 c/therm), a price that will remain fixed in real terms for the next 15 years. Construction of the pipeline is due to begin next year and will be completed by autumn 2002.
The Examiner, 1/2/00

Italian Government Approves Decree that Opens Gas Market to Competition The Italian government has approved a decree liberalising the Italian gas market. The decree prescribes the splitting up of Snam, currently a monopoly within most of Italy, into three separate companies according to the three activities of production-import, transport and distribution. Antitrust rules will also be introduced. For example, from January 2003 until 31 December 2010, no company will be allowed to control more than 50 per cent of the annual national consumption. Regarding imports, those from the other EU member countries will remain free while those from non-EU countries will be subject to ministerial approval.
Il Sole 24 Ore, 15/2/00

Netherlands: APX in Calmer Waters? An internal investigation into the recent price spikes experienced on the APX (Amsterdam Power Exchange) has led to the conclusion that these fluctuations were the result of "external factors", such as the Protocol Agreement between distributors and producers and the restrictions on import capacity, rather than gaming by market participants. Since a new deal was reached on the Protocol Agreement [see news item below], the extreme price fluctuations experienced in January have ended. Some market participants still suspect that other parties engage in price manipulation on the APX. APX intends to commission an external investigation to look into these claims. In the meantime, APX has announced that it intends to start an electricity futures market in September or October this year (earlier than announced previously).
Het Financieele Dagblad, 25/2/00, 19/2/00, 17/2/00; Financial Times, 22/2/00; Energie Nederland 22/2/00; Power in Europe, 4/2/00

Netherlands: Government Proposes Accelerated Introduction of Supply Competition In a letter to the Dutch Parliament, the Minister of Economic Affairs has now come up with concrete proposals for accelerating the introduction of competition in electricity and gas retail supply. The Minister proposes that the smallest electricity and gas users should be able to choose another supplier by 1 January 2004 (instead of the previously proposed date of 2007). She also proposes freedom of choice for medium-sized users by 1 January 2002 (instead of 2003). Plans to accelerate the process had been in the pipeline since last year.
Energie Nederland, 22/2/00

Netherlands: SEP Calls Off Auction of Import Contracts SEP has called off the auction of the energy import contracts that are considered part of the stranded costs in the Dutch electricity sector. Last year, the independent Herkströter commission advised the Government to auction off the import contracts in order to determine the value of the stranded costs. Another party would then be allowed to recover these costs using an appropriate mechanism. However, on the basis of the auction results, SEP decided that the bids were far below the worst case scenario originally anticipated, and that therefore SEP should keep the contracts itself. SEP expects that this development may delay the process by which SEP is to be abolished (planned for January 2001). According to SEP participant EZH, SEP must now try to renegotiate the import contracts with the relevant parties. The Government has not yet reacted to these developments.
Het Financieele Dagblad, 22/2/00

Netherlands: Most Energy Distributors Reach Out-Of-Court Settlement About Protocol Dutch energy distributors reached a compromise solution on implementation of the so-called Protocol Agreement, shortly before a decision on the court case [started by energy distribution companies Eneco and Remu – see our previous issue] was due. Under the compromise solution reached on 28 January, parties had until 3 February to sign up for extra power at a compromise price that is below the usual penalty rates for late orders under the Protocol. Parties were also allowed to sell back excess power ordered under the Protocol. An extra 535 MW of power was ordered under the compromise solution.

However, one distributor (NUON) did not accept the compromise solution and started a court case against PreussenElektra's Dutch trading subsidiary EZH Elektra, claiming the latter had only delivered 10 MW of an agreed amount of 200 MW capacity. EZH Elektra claims that it was allocated much less import capacity than it had expected, and hence could not deliver the required capacity to NUON.
Power in Europe, 21/2/00, 4/2/00; Energie Nederland 1/2/00

Netherlands: SEP Wants Dutch State to Pay More for TenneT
SEP, the umbrella organisation of the four Dutch electricity generators, has told the Ministry of Economic Affairs that the Dutch State may have to pay more than the previously estimated figure of NLG 1.5 billion (around US$ 0.9 billion) for a 50 per cent plus one share stake in TenneT, the high voltage network company owned by SEP. The earlier figure was based on work undertaken by bankers, which estimated the total value of TenneT at NLG 3 billion (US$ 1.9 billion). SEP has now asked the bankers to look into this figure again and to approach interested parties from abroad. In response, the Ministry has asked SEP not to undertake any steps that could distort the

(partial) sale of shares to the State, which includes approaching potentially interested parties. Last month, the Minister of Economic Affairs announced that she is willing to let the State have a temporary majority stake in TenneT (for 2 to 3 years). She is under pressure from the main political parties, who want the State to have 100 per cent ownership of TenneT.
Het Financieele Dagblad, 10/2/00

Netherlands: Acquisition of EPON Approved by European Commission The European Commision has approved Electrabel's take-over of EPON, the largest Dutch power generation company, for NLG 4.8 billion (around US$ 1.6 billion). Following an investigation, the Commission decided that the take-over would not distort competition in the electricity market, either at a European level or at a national level.
Het Financieele Dagblad, 9/2/00

Norway: Profitability of Transmission Cables May Be Undermined by Liberalisation According to a report by the Norwegian social and economic research foundation, Stiftelsen for samfunns- og naeringslivsforskning (SNS), technological developments and liberalisation may undermine the profitability of energy transmission cables. The report was financed by Norwegian power utilities, the Research Council and Enfo (a body representing Norway's power supply industry). The report comes at a time when Viking Cable, Alcatel Kabel Norge and Pirelli Cables and Systems are planning build two sub-sea cables which will form the Viking Cable direct link between Germany and Norway. Norway and Germany/Holland have power exchange agreements for cost saving reasons. The report however found that the cables could not make a large enough profit to give a satisfactory return on capital invested, due to the high level of investment in the thermal power system on the Continent.
Power in Europe, 4/2/00

Spain: Gas TPA Tariffs Decrease The Ministry of Industry has announced the reduction of TPA tariffs by 15% for eligible clients in an attempt to accelerate liberalisation of the natural gas sector. This new measure is expected to be approved by the end of March. The aim of the TPA tariff reduction is to increase the number of competitors to Gas Natural allowing eligible clients to buy gas from other sources. Among the Spanish companies that benefited from this measure are the four Spanish utilities. According to the Secretary of State for Industry, access tariffs for gas transmission and distribution networks will be the same regardless of the transport distance; this "postage stamp" system will result in a notable reduction in the cost of access.
Expansión, 22/2/00; La Gaceta, 22/2/00

Spain: Gas Sector Liberalisation Spanish utilities are stepping up pressure on the government to quicken the pace of gas sector liberalisation in order to match the same level reached in the electricity sector, to make gas for combined cycle stations cheaper and to curb plans by gas sector companies to build power plants.

The 1998 Hydrocarbon Law set the liberalisation of the gas sector in motion, but little progress has been made since then, mainly because Repsol/Gas Natural controls Spain's transmission and distribution networks through its affiliate Enagas.

All the Spanish utilities agree that Repsol's plans to enter the electricity sector should be blocked until the gas sector is completely liberalised.
Power in Europe, 21/2/00; Expansión, 5/2/00

Spain: Stranded Assets During his first official visit to Spain, EU competition commissioner Mario Monti met ministers to discuss the long-standing disagreement over the amount which the government awarded to Spanish utilities as compensation for stranded costs resulting from the 1997 Electricity Law. Monti revealed that a consultant had validated the methods and calculations of the stranded costs presented by the Spanish utilities. The remarks were interpreted as implying that the bulk of the costs will be accepted, except for the coal premium.
Power in Europe, 21/2/00

Spain: The First Global Energy Supply Contract Endesa and Dow Chemical Iberica announced that they had reached one of the first global energy supply contracts between a utility and an eligible client since Spain's liberalisation process began in January 1998.
Power in Europe, 21/2/00

Spanish Gas Prices Rise Domestic and commercial natural gas prices rose by 6.4% in Spain on 15 February, just one day after the increase was announced in the government's Official State Bulletin (BOE). Bulk LPG prices also rose - butane by 2.5% and propane by 2.3%. Industry ministry sources said that the reasons were increasing oil and diesel oil prices and the appreciation of the dollar versus the Euro.

The new average reference price for natural gas is $0.044/thermie consumed, although the increase is not uniform. Low consumption users must pay $0.0439/thermie while medium consumption clients will pay $0.0376/thermie.
International Gas Report, 18/2/00; La Gaceta, 15/2/00; ABC, 15/2/00

NORTH AMERICAN NEWS

New Jersey's Competition Plan Gets Less Than 1 Percent Enrolled in 4 Months Four months after competition was introduced in the New Jersey, less than 1 percent of residential customers have opted to switch their power providers. Low enrollment has been attributed to difficulty in switching, consumer confusion and a lack of choices. In addition, opening the market to all comers has unintentionally produced an influx of out-of-state energy providers who are selling electricity from pollution-causing coal-fired Midwest generating plants.
Utility Spotlight, 21/2/00

Green Power in the US "Green power" is producing widely diverse results on the East and West coasts. The Los Angeles Department of Water & Power reported that more than 27,000 customers, including 44 of its largest industrial customers, agreed to designate 20 percent of their power needs from green power as of 1 February, fulfilling the first phase of its renewable power program. In Massachusetts, customers of investor-owned utilities have paid millions of dollars into a trust fund created for development of green power since start of deregulation on 1 March 1998. Customers served by municipal utilities were excluded from deregulation and were not required to pay into the fund. LADWP concedes that the bulk of its green power participants has been residential and small business customers, but the large commercial/industrial customers buy about 25 percent of the green power load. LADWP is aiming at 150,000 to 200,000 of its 1.2 million customers in the program over the next three to four years.
Utility Spotlight, 21/2/00

California PUC Approves Rate Increase for Pacific Gas & Electric A rate increase that will raise residential customers' bill an average of 6 percent, or US$20, has been granted by the California Public Utility Commission (PUC) to Pacific Gas & Electric. The California Public Service Commission (PUC) decided last year to increase PG&E's revenues by US$453 million per year, so that the company can improve its operations. The PUC also ordered PG&E to undertake a quality assurance program.
Reuters, 18/2/00

Florida: Natural Gas Market Opens to Competition The Florida Public Service Commission (PSC) has opened the Florida natural gas market to competition, allowing Florida businesses to choose their natural gas supplier. This rule also permits utilities to offer residential customers a choice of supplier, but does not require this option. This rule, which is similar to rules that are in effect in forty states, will become effective in the fall.
Tampa Tribune, 16/2/00

California ISO Proposes Steps for Congestion Management
Responding to federal criticism, the California ISO has suggested some interim steps to relieve congestion on its electric transmission grid while gathering input from all major stakeholders. The California ISO acknowledged and FERC has warned the state grid operator that its present congestion management system is insufficient because it can be used by generators who abuse market power under certain circumstances. Eventually, how Cal-ISO deals with congestion, including modifying its zonal approach to pricing, could have widespread impact on all stakeholders, including its sister non-profit body, California Power Exchange. In a FERC filing, the California-ISO is asking for an interim approach to address congestion, with a filing for a permanent approach to be made by 31 October of this year.
Utility Spotlight, 14/2/00

State Utility Board Reviews Akron, Ohio Utility's Deregulation Plans Upon its first look at Akron, Ohio-based FirstEnergy's deregulation plan, the PUC of Ohio recommended that the utility reduce the amount of "stranded costs" that it plans to pass through to its customers. These stranded costs include FirstEnergy's nuclear plant investments and other government-mandated costs that cannot be recovered in the competitive marketplace, which will begin when the market is deregulated on 1 January 2001. Customers will have a surcharge in their bills to pay for the stranded costs.
Akron Beacon Journal, Ohio, 12/2/00

Midwest Utilities: ITC will Enhance Midwest Independent Transmission System Operator A group of Midwest utilities have presented a conceptual model which, if embraced by federal regulators, could lead to the formation of an independent transmission company ("ITC") empowered to own and operate the Midwest transmission network more efficiently and effectively. The ITC model offers a mechanism to allow immediate structural separation of transmission assets from all other utility holdings and it eliminates the concept of and any preference for native load in transmission service. The proposal has two levels of independence — an ITC governed by a board that is independent of buyers and sellers of electricity, and oversight provided by the MISO with its independent board and advisory committees.

The model includes a commitment to consolidate several existing control areas and to operate as a single NERC-recognized control area from day one of operations. The proponents offered to establish an organized energy market open to all market participants on a non-discriminatory basis, to support wholesale competition, to manage congestion via markets using locational marginal pricing and financial transmission rights, and to procure ancillary services efficiently. The

tariff structure will be designed to support both market-funded and rate-funded investments in grid expansion, with a provision requiring MISO approval of major rate-funded expansions to address the fears of those who are concerned that an ITC would "overbuild". Finally, a "pay for performance" approach, with explicit performance measures would be established for the ITC, with financial rewards or penalties depending on its actual performance.
PRNewswire, 8/2/00

New England Owners Say ISO Restrictions Thwart Development of Wholesale Market A group of large New England generation owners has issued a white paper charging that restrictions imposed on energy, capacity and reserve markets by the ISO New England has blocked development of an "effective" wholesale market for energy in New England. The "ISO-NE Competitive Market Group" charged that problems with the ISO caused under-investment in peaking capacity in the region and that, without changes, an increasing number of generators and traders will leave the New England market. The CMG also proposed several specific changes to ISO operations including a systematic reduction of ISO interference in price setting. In a reply statement, the ISO New England said that the real problem was the "flawed" structure of New England markets, which were established by the New England Power Pool in early 1999 after lengthy debates.
Electric Utility Week, 7/2/00

U.S. FERC Would Change Its Fee System to Base it on Transmission Volume Bowing to industry pressure to overhaul its electricity regulatory fee assessments, the Federal Energy Regulatory Commission (FERC) last week proposed a system that, starting in 2002, would impose charges directly on utilities based on the volume of power they carry through their transmission system. Power exchanges, power marketers and others would be exempt from direct FERC fees, but would pay indirectly through cost-based transmission rates, the commission said in a notice of proposed rulemaking (Docket No. RM00-7). FERC anticipates that it will initiate the new fee assessments beginning in 2002. The commission wants comments on the proposed changes within 60 days.
Electric Utility Week, 7/2/00

Slow Start to Customer Choice in Illinois Market Customer choice in Illinois is off to a slow start, owing to proxy market prices that are too low, a lack of wholesale generating capacity in the region, and the imposition of reciprocity requirements on alternative suppliers. In a report to the Illinois General Assembly, the Illinois Commerce Commission (ICC) said customer choice is occurring only in Commonwealth Edison's service territory, and even there, activity is minimal. A key element slowing development is that the proxy market

price of power may have been set too low. Under Illinois restructuring law, this proxy market value is set annually by a “neutral fact finder” and is currently 2.9 cents/kWh. This figure is adjusted somewhat in each utility’s direct service tariffs. Overall, direct access charges in Illinois have been set up so that if the proxy market price of electricity or the direct access service charge increases, stranded costs decline – a factor established by legislators to prevent gaming. Also contributing to muted competition in Illinois is the lack of available supply in the wholesale market. Finally, says the ICC, energy imbalance service tariffs approved by the Federal Energy Regulatory Commission can significantly impact the ability of third-party providers to serve retail load.
Electric Utility Week, 7/2/00

Maine Deregulation Will Not Yet Offer Choice to Residential Customers Although Maine’s electricity market is scheduled to become competitive on March 1, residential customers will not be able to choose their electricity service provider on the scheduled date. Of the companies that bid to provide residential service in the southern region of the state, only one bid was accepted. Consequently, that bidder, Energy Atlantic, will now supply all area residents. In the north-central region of the state, none of the bids were accepted, and the Maine Public Utilities Commission (PUC) has ordered Bangor Hydro Electric to find power sources and to sell electricity to residents at a preset price. Despite the lack of competition in the state, electricity bills will decline, slightly, as a result of PUC pricing regulations.
The Economist, 5/2/00

California Power Plant Divestiture Results The auction of 20,187 MW of California utility generation assets has brought in US$3.174 billion dollars so far - a figure that could conceivably double with the pending sale of Pacific Gas & Electric hydro facilities. The “premium” above book value captured in the sales is roughly split between extra funds to retire utility stranded costs and tax payments. While the nearly US$3.2 billion in sales revenues represents an average premium-above-book factor of 1.75 (175 percent), several individual transactions depressed that average because the sale prices came in lower than the depreciated book values for those units. In particular, the purchase of PG&E’s geothermal facilities at The Geysers by Calpine Corporation for US$213 million brought in about US$60 million less than the book value of US$273 million. And while AES Corporation paid a significant 350 percent premium above book for three large coastal power plants sold by Southern California Edison, the sales of other Edison facilities brought in just 90 percent of their combined book values.
California Energy Markets, 4/2/00

Michigan: Consumers Energy Completes Third Phase of Electric Customer Choice Program Consumers Energy, Michigan's largest electric utility, has made 7.5 percent of its electric capacity available to competitors, now that the third round of bids is complete. A total of 450 megawatts are now available to other power generators. By 1 January 2002, all 1.6 million of Consumer Energy's retail customers will be able to choose an alternate supplier. Consumers will continue to provide transmission and distribution of electricity.
PRNewswire, 4/2/00

Nevada Commission Rejects Utility's Updated September Filing The PUC of Nevada has rejected Nevada Power Company's updated deferred energy filing of 30 September 1999 and ruled that the company should continue with its 15 July 1999 filing. The company is analyzing the financial impact of this action. According to Nevada Power Company, the decision disallows costs previously incurred for the purpose of providing service to customers, would lead to a pre-tax charge of US$20-60 million against 1999 earnings, and could reduce future earnings by US$30 million annually.
PRNewswire, 4/2/00

NEPOOL Pricing Rules Prompt NRG Energy to Move 42 MW Out of New England NRG Energy has informed the New England Power Pool that it will move two oil-fired combustion turbine units totalling 42 MW from Massachusetts to a location outside of New England. NRG is taking the action because rules requiring units to run for reliability reasons imposed by NEPOOL and administered by the New England Independent System Operator were forcing the units to run at a loss for a significant part of the year. The rules reportedly did not allow the units to recover variable costs of operation when they were dispatched by the ISO New England for grid support. Under section 18.4 of the NEPOOL agreement, NRG must get clearance from NEPOOL to retire the plants from service in New England and it now faces negotiations with NEPOOL members over the issue, which could last up to six months.
Electric Utility Week, 31/1/00

Connecticut: DPUC Approves Southern Connecticut Gas Company's Revenue Increase The Connecticut Department of Public Utility Control (DPUC) has issued its final decision, approving the US$502,000 annual revenue increase for the Southern Connecticut Gas Company. The increase will add approximately 0.2% to current rates for firm sales customers, and the rate increase will be effective starting 1 February 2000. Southern Connecticut Gas Company, which distributes gas to approximately 158,000 customers in Connecticut, is the principal subsidiary of Connecticut Energy Corporation.
Business Wire, 31/1/00

Mexico: New Rules for Natural Gas First-Hand Sales by Pemex The Mexican Energy Regulator, Comisión Reguladora de Energía (CRE), published a new directive that will regulate the contractual relationship between Pemex and natural gas buyers. The directive establishes the criteria and guidelines that Pemex must observe when carrying out sales of domestic natural gas. The main objectives of the directive are to make more transparent the contractual relationships between Pemex and natural gas buyers, and prevent Pemex from imposing unilateral or discriminatory contractual conditions.
http://www.energia.gob.mx 23/2/00

Mexico: Rio Bravo III Power Project Nears Bidding Mexico is currently preparing the Rio Bravo electricity generation project for bidding, creating a new plan that will permit the construction of a power plant in the US, if the winning bidding company elects to do so. The Federal Electricity Commission (CFE) has released a document detailing the project; because bidding companies must provide electricity, but can use their current infrastructure to do so, this will essentially be a supply contract.
El Financiero/Infolatina via NewsEdge Corporation, 8/2/00

Mexico Will Not Open its Electricity Sector in Year 2000
Mexico will not open its electricity sector to private capital in the year 2000, despite requests from President Ernesto Zedillo to rush the bill through congress before the presidential and congressional elections planned for 2 July of this year. Congress has said that it will not consider a constitutional amendment to allow private ventures in electricity generation, distribution and retailing until 2001 or 2002. Zedillo believes that without massive private investment, Mexico will not be able to raise the US$48.4 billion that it needs by 2007 to upgrade its power grid and ensure enough energy for industry expansions. However, Congress does not agree with the rush and believes that the bill should be adequately debated, without a time limit.
Reuters, 28/1/00

CENTRAL AND SOUTH AMERICAN NEWS

Venezuela: Electric Utility, EDC, to Keep 10% Rate Hike
Venezuela's Electricidad de Caracas (EDC) will be allowed to keep a 10% rate hike in 2000, under a new rate plan agreed to by the government. There has been some dissension over this rate increase, and consequently, doubts existed as to whether or not EDC would be able to maintain it under a new electricity law approved in August 1999, after the rate increase was agreed upon. Under the new law, vertically integrated companies such as EDC must be broken into

separate generation and transmission companies with different pricing mechanisms. Regardless of the workings of the law, however, the rate increase will remain for the rest of this year.
Bridge News, 16/2/00

Chile: Power Producers Ordered to Draft a Blackout Contingency Plan As a result of the two power blackouts that interrupted mining operations in northern Chile in 1999, six power producers in that area have been ordered, by Chile's Electricity and Fuels Superintendency (SEC), to submit a blackout contingency plan within thirty days. Twice in 1999, the 370 megawatt Nopel power generator went offline and the entire Northern Interconnected System (SING) blacked out. Copper miners in northern Chile claim that the SING blackouts cost them US$15 million. All of the SING power generation companies were fined for the blackout, a total of US$5 million.
Bridge News, 16/2/00

Chile Power Company Announces Sale of Concessions Chile's largest power company, Endesa, has announced that on 20 March 2000, it will sell its stakes in a highway concessionaire and a tunnel operator, in order to focus exclusively on energy markets. Currently, Endesa owns 60% of Infrastructura 2000, which operates two highway concessions, and 96% of the Tunnel El Melon, which operates a tunnel on the Pan-American Highway. Endesa's goal is to sell the assets for no less than US$75 million. Endesa is primarily a hydroelectric generating company and is the owner of Chile's largest electricity transmitter.
Bridge News, 2/2/00

Pluspetrol Wins Peru Natural Gas Project A consortium headed by Argentina's Pluspetrol and including the US's Hunt Oil Co. and South Korea's SK Corp, won a contract from the Peruvian government to develop Latin America's largest natural gas fields, exploring and producing gas from the Camisea fields. The project is predicted to require a US$1.6 billion investment, and the Peruvian government expects it to become the country's largest foreign investment project.
Reuters, 16/2/00

Brazil: Power Co. Celpe is Privatized On 17 February, Brazilian power company, Celpe, underwent privatization. A group led by Spain's Iberdrola purchased Celpe for US$1 billion. Celpe, the monopoly supplier of electricity in the state of Pernambuco, is one of Brazil's last energy distributors to be privatized. The Iberdrola group was the only bidder for Celpe, after the other two bidders, Chile's Enersis and the US's Utilicorp dropped out of the auction. Iberdrola has said that it will invest US$445 million in Celpe over the next five years, expanding and modernizing its operations and constructing a thermoelectric plant that should open in 2002.
Reuters, 17/2/00

Brazil's FURNAS is Fined for March 1999 Blackout and May be Fined for Failing to Sign Contract The Brazilian electric utility FURNAS has been fined roughly US$900,000 for its role in a March 1999 blackout that left more than half of the nation without power for several hours. The company may also have to pay US$1.7 million in fines imposed by the National Electricity Agency (ANEEL) due to its failure to sign new contracts to buy and sell power as part of an overall regulatory reform within the electricity sector. The company does plan to sign the contracts, but is awaiting information from ANEEL about the consequences of signing them late.
Bridge News, 10/2/00

Brazil Auctions New Electricity Concession Brazil's Electricity Agency (ANEEL) is accepting bids for a US$116.7 million electricity transmission concession, which will involve the construction of two transmission lines by 2001. Three groups are expected to submit proposals: Transbras, Multiservice/AMP, and Schahin/Alusa. The 30-year concession will be awarded to the group that offers the lowest transmission fees.
Bridge News, 9/2/00

Argentina-Uruguay-Brazil Pipelines Transportadora de Gas del Sur (TGS) of Argentina signed a deal with British Gas and Pan American Energy to build a pipeline to send gas to Uruguay and possibly to southern Brazil. The new pipeline will have a capacity of 5.5 MMcmd and potential for expansion up to 18.5 MMcmd.
International Gas Report, 18/2/00

Honduras and El Salvador Power Link Honduras and El salvador have signed an agreement to build a transmission line to link their power grids. The 150-kilometre line will form part of the planned regional network which will link the power systems of Guatemala, Nicaragua, Costa Rica, Panama and El Salvador and Honduras.
Global Private Power, 16/2/00

ASIA-PACIFIC NEWS

Victoria, Australia: Office Requires GPU PowerNet to Comply with its Licence The Office of the Regulator General (Office) has decided that the price offered by the transmission company GPU PowerNet to increase supply (via network investment) to Melbourne's north-west is inefficiently high and in contravention of the requirements of its licence. The Office will undertake further analysis and consultation before prescribing specific guidance or making a determination as to what would be a fair and reasonable price. The Office has also decided that the offer price is not fair and reasonable as it does not

allow for its modification in accordance with a later decision by the Office (thereby preventing work from commencing before the dispute is resolved).
The Office of the Regulator-General Media Release, 28/2/00

Victoria, Australia: Continued Improvements in Electricity Supply Reliability The Victorian regulator has released a report on the performance of Victoria's five electricity distribution businesses for the six months from January to June 1999. The report shows that there have been overall improvements in key areas of service to customers when compared to the same period in 1998. Better weather conditions over the 1999 summer months contributed to the significant overall improvements in the reliability of supply to Victorian customers compared to the same period in 1998. The Office's comprehensive report of the distributor's performance for the full 1999 calendar year will be released in July.
The Office of the Regulator General Media Release, 28/2/00

South Australian Privatisation of Electricity Generation Assets The South Australian government has short-listed six bidders for Optima and five for Synergen in the second stage of its power privatisation program. Four bidders have been short-listed for both generation companies although cross-ownership regulations ensure they can only acquire one. The short-listed bidders include: five US companies (AES, Edison Mission, Enron, NRG and TXU), Canadian company ATCO and the UK's National Power.

The South Australian government has already leased its power distribution company, ETSA Utilities, to the joint venture Hong Kong Electric/CKI. AGL acquired retail company ETSA Power. Total proceeds were A$3.53bn (US$2.17bn).

ElectraNet, the South Australian transmission company is scheduled for privatisation in April of this year.
South Australian Treasury Media Release, 24/2/00

Australia: Tasmania's Regulatory Test for Network Augmentations The Office of the Tasmanian Electricity Regulator has released its draft final regulatory test for network augmentations. The regulatory test is modelled on the ACCC's "market benefit" test which was promulgated in December 1999.
Office of the Tasmanian Electricity Regulator, 23/2/00

NSW, Australia: Gas Prices in Wagga Wagga and Albury
The New South Wales regulator, the Independent Pricing and Regulatory Tribunal (IPART), has determined that residential, commercial and industrial customers in Albury and Wagga Wagga are not being overcharged for gas. IPART found that prices were reasonable in relation to the cost of service.
IPART Media Release, 22/2/00

Australia: Auditor-General Drops NSW Power Inquiry The NSW Auditor-General has abandoned plans to examine the State's power industry in the wake of the legal battle between State-owned generator Pacific Power and a Victoria-based electricity distributor. Pacific Power has previously lost a Victorian Supreme Court case with Powercor Australia over electricity trading agreements, but Pacific Power is appealing the ruling. As the legal battle is continuing the Auditor-General's legal advice has been to not proceed with its intended review of the risk management systems of the ten NSW government-owned power utilities.
The Australian Financial Review, 2/2/00

Australia: ACCC Sets Electricity Transmission Revenue Caps for NSW and ACT The Australian Competition and Consumer Commission (ACCC) has issued its decision on the revenue cap for TransGrid and EnergyAustralia, the companies that provide electricity transmission services in New South Wales (NSW) and the Australian Capital Territory (ACT). The decision is the first made by the ACCC as the economic regulator of electricity transmission in the National Electricity Market.

TransGrid's revenue path trends from A$329.6m (US$202.5m) in 1999/2000 to A$393.1m (US$241.6m) in 2003/2004. This implies an initial fall in TransGrid's revenue from A$339m (US$208.3m) in 1998/1999. This revenue path provides TransGrid with a 13.85 per cent post tax nominal return on equity, based on an opening asset base of A$1.94bn (US$1.19bn).

EnergyAustralia's revenue cap for its transmission assets have been based on an opening asset base of A$345m (US$212m) and a return on equity that is consistent with TransGrid's.
ACCC Media Release, 1/2/00

India: The Government Considers Mandatory Cap on Subsidies The New Delhi government is considering a mandatory cap on the states' subsidies to power supply at rates below the cost price. It is also proposed that subsidies should be provided only through the state governments and that the burden should not fall on their power utilities.

Many of India's state utilities are technically bankrupt partly because of a heavily subsidised electricity supply. Some state governments have felt that it was not politically possible to avoid subsidies, notably to the farming sector, and have therefore set up independent regulatory commissions with the power to fix tariffs. A total of 14 states are now in the process of setting up independent commissions.
Power in Asia, 21/2/00

India: The Southern State of Karnataka Launches an Extensive Energy Reform The reform, which is being undertaken in concert with the central government, involves programmes for the privatisation of power distribution and an energy audit to check heavy transmission and distribution losses. The central government will push in large investments and supply new generation and transmission projects for the benefit of the state. An independent regulatory commission has been set up in the state and it will have a say in the fixing of power tariffs.

The government of New Delhi hopes that the Karnataka experiment will lead to a cascade effect on other states in India which need to undertake reforms to rescue their state utilities from near-permanent indebtedness.
Power in Asia, 21/2/00

India: Improved Prospects for Power Sector Reform The Uttar Pradesh State Electricity Board (UPSEB), the largest single state electricity board in India, is in a process of unbundling itself into three new entities which will eventually be privatised. Similar restructuring projects in three other states (Orissa, Harayana and Andhra Pradesh) resulted in strong political opposition and strike calls by labour unions representing power sector employees.

According to local observers the failure of strike action in Uttar Pradesh, along with a more proactive approach by the federal government in favour of the reform process, could unleash a wave of restructuring activity in the Indian power sector. The Power Ministry has noted that almost all of the states in India are working on power sector reform proposals. The privatisation moves have been accompanied with the establishment of independent state regulatory authorities, which now exist or are in the process of being implemented in 14 states.
Global Private Power, 16/2/00

Indonesia: Parliament Accord on Big Rise in Tariffs Indonesia's parliament has reached an agreement to raise the country´s power tariffs by an average of 29% from 1 April. Low income households will be excluded from this tariff raise. Indonesia´s policy makers have long feared the social impact of raising energy tariffs. The government plans to avoid the main impact by maintaining some energy subsidies, especially for the urban poor. The state-owned power company, PLN, has repeatedly claimed that it cannot complete essential restructuring until it starts to earn market prices for its power.
Power in Asia, 21/2/00

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